



Treasury Trends

Bringing currency to the Arizona Taxpayer

David A. Petersen, State Treasurer

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This month's
character trait ---

Generosity:
*Carefully managing
my resources so I
can freely give to
those in need.*

*Both LGIP Pools
continue to
increase their
yields in
November 2004*

*Ken Fisher comes
to ASTO from City
of Phoenix*

LGIP Performance

The Board of Investment, in the regular meeting held on December 15, 2004, was informed of the performance of the LGIP and LGIP-Gov pools. Both pools continued to increase their yields over the previous month. Balances of the pools also remained relatively stable for the month.

Yields	LGIP	FYTD	WAM	LGIP-GOV	FYTD	WAM
Pool size →	\$2.5 B			\$1.3 B		
January '04	1.41	1.47	86.52	.98	1.04	120.57
Feb '04	1.44	1.46	80.30	1.00	1.04	118.86
March '04	1.39	1.45	79.00	1.01	1.03	116.59
April '04	1.39	1.45	82.66	1.02	1.03	151.44
May '04	1.39	1.44	79.30	1.01	1.03	129.30
June '04	1.45	1.44	71.59	1.06	1.03	122.64
July '04	1.59	1.59	180.85	1.25	1.25	137.49
August '04	1.72	1.65	167.22	1.39	1.32	116.82
September '04	1.81	1.71	162.99	1.45	1.36	113.7
October '04	1.90	1.76	151.52	1.57	1.41	101.86
November '04	2.06	1.82	151.65	1.72	1.48	88.66
December '03	1.44	1.48	87.07	.98	1.05	106.10

Fiscal Year is July 1 to June 30

New Portfolio Managers Join Team

Ken Fisher has joined the ASTO Team as a portfolio manager. Many LGIP participants may be familiar with Ken as the investment manager in the City of Phoenix Finance Department. In addition to City of Phoenix, his resume includes experience at M&I Investment Management, Desert Schools Credit Union, and the Bank of New York. His skills include managing domestic portfolios, cash flow management, and strong accounting/analytics of financial statements. He also has a great deal of knowledge, experience and insight into the perspectives of the local governments. His assignments will include working on teams managing LGIP portfolios, as well as some of the State Agency Pools.

Phil Boehmke has also joined the ASTO team as a portfolio manager. Unlike Ken, who increased his commute by five minutes, Phil had to pick up his life and move from New Hampshire to Arizona. Prior to the ASTO, Phil managed portfolios for Citizen's Bank (a wholly-owned subsidiary of the Royal Bank of Scotland).

*Selecting
equally effective
but lower cost
alternatives
leaves funds
available for
other uses*

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His resume also lists a stint with the Federal Farm Credit Banks System where he managed a portfolio consisting of U.S. Treasury, Federal Agency and mortgage-backed securities. In all, he brings over 25 years of experience to the trading room. Phil will be working with the longer portfolios, including the State Endowment Fund - which provides revenues to educational institutions throughout Arizona.

With the addition of these two portfolio managers, the ASTO has the deepest coverage of the investment pools in the history of the Treasurer's office. This will allow the portfolio managers to narrow their focus and fine tune the portfolios. The results of their efforts will be evident over the coming years.

Ford Taurus vs Lincoln Towncar

With \$50,000 available to purchase a new automobile to drive to work, there are many choices. Since any new car will get driver and passengers to most work destinations, other decision criteria come into play. One of the most obvious is that of price. If I have a choice between buying a Lincoln Towncar or a Ford Taurus, the choice comes down to these items: initial purchase price plus ongoing maintenance costs. I know the Lincoln Towncar is more luxurious and carries greater prestige, but that only comes at a cost of greater initial purchase price and greater on-going maintenance. If my purpose in buying the car is transportation to and from work, the obvious choice for me is the Taurus. It will meet my needs as well as the Towncar but at a price which is almost half of the Towncar. Does the extra luxury and prestige get me to the office any sooner or more efficiently? No. So, if I buy the Taurus, there will be money left out of the \$50,000 for other important uses.

As financial stewards of taxpayer funds, we face many choices. One relates to how funds are invested. Just as in the car example above, we can choose to utilize inexpensive investment alternatives which effectively get us to the desired destination. Or, we can use more expensive ways which get us to the same destination. The choice is ours, but taxpayers end up paying the tab if we choose the more expensive path.

The LGIP pools were authorized by the State Legislature in 1980 and first funded in July of 1981. The LGIP was established to provide benefits of professional money-management, increased buying power, increased diversification, and low investment costs to the local governments. In other words, the LGIP is the Taurus of investment choices. The ASTO hopes you will consider this as you evaluate investment alternatives. Reduced investment expenses increase funds available for other programs desperately needing funding.

***LGIP: local & state government working together
to safeguard Arizona taxpayers' money.***

Yield Curve Perspective

Treasury Yield Curve				
Term	29 Dec	1 Week Earlier	1 Month Earlier	1 Year Earlier
3 mo.	2.22	2.18	2.21	0.87
6 mo.	2.58	2.53	2.40	1.00
2 yr.	3.10	3.00	3.05	1.85
3 yr.	3.29	3.18	3.29	2.31
5 yr.	3.68	3.56	3.70	3.23
10 yr.	4.32	4.19	4.32	4.24
30 yr.	4.94	4.83	4.96	5.05